

Daily Treasury Outlook

23 March 2020

Highlights

Global: Recession fears due to the global Covid-19 pandemic continued to weigh on markets, with S&P futures hitting the limit 5% down again as US policymakers dither on the \$2 trillion stimulus package, even as other government and central banks rushed to push out new lifelines for beleaguered companies. Meanwhile, Fed's Bullard has warned US unemployment rate could spike to 30% in 2Q due to Covid-19, even as California, Washington and New York were declared disaster zones. On Friday, the S&P500 retreated 4.34% while UST bonds rallied with 10-year yield down 30bps to 0.85%, albeit VIX eased to 66.04. Meanwhile, RBNZ has announced quantitative easing to buy up to NZ\$30b of government bonds in the secondary market over the next 12 months beginning this week, while the Australian parliament is convening today to pass additional stimulus measures.

Market watch: Asian markets are likely to face another weak session today amid growing recession concerns. Today's economic data releases comprises of Thai trade data, Taiwan's industrial production and unemployment data, Hong Kong and S'pore's CPI data, and US' Chicago Fed national activity index. This morning, South Korean exports grew a better than expected 10% yoy for the first 20 days in March, whilst imports also expanded 5.9%. For the week ahead, BOT and BOE are meeting on 25 and 26 March respectively, but post-emergency rate cuts last week, may be hard-pressed to ease monetary policy settings.

US: Existing home sales rebounded more than expected by 6.5% in February, but prior to Covid-19 outbreak. Meanwhile, Fed's Kashkari opined that more support can be provided to the corporate bond market and municipal market as the Fed is "far from out of ammunition".

China: China's benchmark 1-year and 5-year Loan Prime Rates (LPR) were kept unchanged on 20 March at 4.05% and 4.75%. Given PBoC's policy priority is to provide liquidity and credit support to the real economy to ensure company stayed floated, the price of money is not the imminent target. In addition, China's achievement to contain the spread of novel coronavirus also gave PBoC room to save the bullet for future shock. Nevertheless, we think the trend for LPR to go down will not change in the medium term though China is unlikely to adopt Fed's aggressive approach to slash interest rates to zero.

Singapore: February headline and core inflation likely eased to 0.3% and 0% yoy respectively as the Covid-19 outbreak dampens appetite for consumer spending.

Oil: Brent prices this morning have fallen below \$25/bbl, after the US Congress failed to agree on phase three of its fiscal stimulus over the weekend as initially expected. Three weeks ago, we had expected Brent to find stabilisation around the \$30/bbl handle, but that support has since been steamrolled by increasing bearishness in global markets.

Key Market Movements

Equity	Value	% chg
S&P 500	2304.9	-4.3%
DJIA	19174	-4.5%
Nikkei 225	16553	0.0%
SH Comp	2745.6	1.6%
STI	2410.7	4.3%
Hang Seng	22805	5.0%
KLCI	1303.3	6.9%
Currencies	Value	% chg
DX	102.817	0.1%
USDJPY	110.93	0.2%
EURUSD	1.0688	0.0%
GBPUSD	1.1629	1.3%
USDIDR	15960	0.3%
USDSGD	1.4506	0.0%
SGDMYR	3.0328	-0.3%
Rates	Value	chg (bp)
3M UST	-0.03	-0.76
10Y UST	0.85	-29.50
1Y SGS	1.13	1.00
10Y SGS	1.65	-12.22
3M LIBOR	1.20	7.94
3M SIBOR	1.00	0.44
3M SOR	0.89	1.64
Commodities	Value	% chg
Brent	26.98	-5.2%
WTI	22.63	-12.7%
Gold	1499	1.9%
Silver	12.62	4.1%
Palladium	1643	-0.8%
Copper	4810	-0.3%
BCOM	61.10	-0.5%

Source: Bloomberg

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Major Markets

US: US equity markets tumbled again last Friday as an attempt to rally earlier in the trading session failed. The S&P500 index fell 4.3%. Markets have been pricing a global economic recession due to the worsening coronavirus pandemic and although governments and central banks have implemented huge stimulus programs, they have largely failed to calm markets. Investors will be looking out for progress on the coronavirus stimulus bill, which has hit a snag in Senate voting. Failure to pass the bill is likely to result in another sell-off.

Hong Kong: US\$HKD spot dropped below 7.7600 to the lowest since 2017 mainly due to the retreat of broad dollar and the strong HKD demand for quarter-end window dressing. Besides, the increasingly attractive valuation of H-share has lured capital flows from Mainland China to Hong Kong, in turn lending some support to the HKD. Specifically, as of 20th March, southbound equity flows under stock connect recorded net inflows for the 20th consecutive trading day, driving the month-to-date net inflows up to a record HK\$112.22 billion. In contrast, northbound equity flows registered month-to-date net outflows of a record RMB69.94 billion. Notably, after the recent stock market rout, Hang Seng China AH Premium Index rose above 130, as compared to the five-year daily average of 127.17. Moving ahead, should USD liquidity crunch ease and push down both LIBOR and the broad dollar, the possibility of US\$HKD spot touching 7.75 cannot be ruled out.

Macau: Inflation decelerated to 2.33% in February. Moving forward, we expect the inflationary pressure to remain muted, given the easing pork shortage, the abated Lunar New Year effect, the sharp decline in oil price, the stalling tourism and the weakening local consumption. Overall inflation is expected to decelerate from 2.75% in 2019 to 1.65% in 2020.

Visitor arrivals dropped by a record 95.6% yoy in February as Mainland China banned outbound tour groups and suspended the approval of visa to both HK and Macau. The share of Mainland visitors (-97.2% yoy) in total visitors shrank notably from 74.8% in January to 46.2% in February. Last week, due to the wide spread of covid-19, more countries and regions including Macau imposed harsher travel restrictions. This is set to hit harder on Macau's tourism as well as the gaming sector. As such, even though all casinos have resumed operation, the outlook of the gaming sector remains bleak. Macau government slashed its 2020 gaming revenue forecast from MOP260 billion to MOP130 billion. This indicates that gaming revenue will drop by 56% yoy in 2020. As China's economic outlook looks softer than previously expected and global recession risk has increased amid the global spread of covid-19, high-roller demand could soften further while mass-market segment may lose momentum. As such, we also revise our forecast on 2020 gaming revenue growth from -11.5% yoy to -25% yoy.

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Taiwan: Exports orders dropped by 0.8% yoy in February. Nevertheless, in terms of a month-on-month comparison, exports orders declined by 18.8% during the same period, amid the sluggish demands affected by the concerns over of Covid-19. With the global spreading of the epidemic starting from March, the external demands might remain fragile in the coming months, despite that the gradual recovery of supply chain in China might help to offset parts of the impacts.

Singapore: The STI added 4.32% to close at 2410.74 on Friday, but may slip again today amid growing global recession fears and weak morning cues from Kospi. With the ongoing flight to quality, SGS bonds are likely to rally again and extend Friday's gains.

Malaysia: The Malaysian government has deployed its military personnel to help enforce the movement restriction order. This comes after reports of a lack of compliance for the order in areas across the country. Health Ministry said that the country saw its 9th death due to the Covid-19 infections, as confirmed cases reached 1183 on Saturday.

Indonesia: President Jokowi has ordered spending cuts across the public service so that the money can be reallocated to fight the coronavirus. Finance Minister Sri Mulyani has warned the growth prospects for Indonesia may be worse than during the GFC. If the situation is prolonged by 3-6 months, with trade down by 30%, Indonesia could see growth of 2.5% or even 0%, she added.

Thailand: The Bank of Thailand conducted an emergency rate cut on Friday night, reducing the benchmark interest rate from 1.00% to 0.75%. The MPC was initially scheduled to meet this coming Wednesday. The central bank also introduced other liquidity mechanisms.

Bond Market Updates

Market Commentary: The SGD swap curve bull-flattened on Friday, with the shorter tenors trading 1-12bps lower, while the belly and the longer tenors traded 12-15bps lower. The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 7bps to 256bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 50bps to 1225bps. The HY-IG Index Spread widened 42bps to 968bps. Flows in SGD corporates were heavy, with flows in DBSSP 3.98%-PERPs, OCBCSP 4%-PERPs, HSBC 4.7%-PERPs, STANLN 5.375%-PERPs, SINTEC 5%-PERPs, UOBSP 3.58%-PERPs, MAPLSP 4.5%-PERPs, BAERVX 5.75%-PERPs, UOBSP 4%-PERPs, BAERVX 5.9%-PERPs, PREHSP 5.95%'20s and UBS 4.85%-PERPs. 10Y UST Yields fell 30bps to 0.85%, after the New York governor said he would issue an order to ensure 100% of non-essential workers stay at home and all non-essential businesses close. California has also ordered nearly 40mn residents to stay home. As of Sunday, New York reportedly has about 5% of total COVID-19 cases worldwide.

New Issues: There were no new issues or mandates.

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Foreign Exchange

	Day Close	% Change		Day Close	% Change
DX	102.817	0.06%	USD-SGD	1.4506	-0.02%
USD-JPY	110.930	0.20%	EUR-SGD	1.5495	-0.11%
EUR-USD	1.0688	-0.04%	JPY-SGD	1.3095	-0.10%
AUD-USD	0.5785	0.73%	GBP-SGD	1.6867	1.24%
GBP-USD	1.1629	1.25%	AUD-SGD	0.8411	0.94%
USD-MYR	4.3947	-0.43%	NZD-SGD	0.8285	0.59%
USD-CNY	7.0960	-0.18%	CHF-SGD	1.4705	-0.08%
USD-IDR	15960	0.30%	SGD-MYR	3.0328	-0.35%
USD-VND	23372	--	SGD-CNY	4.8973	-0.41%

Equity and Commodity

Index	Value	Net change
DJIA	19,173.98	-913.21
S&P	2,304.92	-104.47
Nasdaq	6,879.52	-271.06
Nikkei 225	16,552.83	--
STI	2,410.74	99.74
KLCI	1,303.28	83.56
JCI	4,194.94	89.52
Baltic Dry	625.00	-5.00
VIX	66.04	-5.96

Interbank Offer Rates (%)

Tenor	EURIBOR	Change	Tenor	USD Libor	Change
1M	-0.4500	3.20%	O/N	0.2119	-8.16%
2M	-0.3360	-8.16%	1M	0.9285	15.08%
3M	-0.3710	15.08%	2M	1.1000	11.90%
6M	-0.3130	11.90%	3M	1.2041	7.94%
9M	-0.1940	7.94%	6M	0.9943	2.75%
12M	-0.1860	2.75%	12M	0.9335	3.26%

Government Bond Yields (%)

Tenor	SGS (chg)	UST (chg)
2Y	1.11 (-0.1)	0.31 (-0.14)
5Y	1.34 (-0.1)	0.46 (-0.23)
10Y	1.65 (-0.12)	0.85 (-0.3)
15Y	1.72 (-0.08)	--
20Y	1.69 (-0.07)	--
30Y	1.66 (-0.06)	1.42 (-0.37)

Fed Rate Hike Probability

Meeting	# of Hikes/Cuts	% Hike/Cut	Implied Rate Change	Implied Rate
29/04/2020	-0.01	-1	-0.003	0.108
10/06/2020	-0.079	-6.9	-0.02	0.09
29/07/2020	-0.13	-5.1	-0.033	0.077
16/09/2020	-0.146	-1.6	-0.037	0.074
05/11/2020	-0.128	1.8	-0.032	0.078
16/12/2020	-0.124	0.4	-0.031	0.079

Financial Spread (bps)

	Value	Change
EURIBOR-OIS	12.80	2.00
TED	35.36	--

Secured Overnight Fin. Rate

SOFR	0.06
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Commodities Futures

Energy	Futures	% chg	Soft Commodities	Futures	% chg
WTI (per barrel)	22.43	-11.1%	Corn (per bushel)	3.4375	-0.5%
Brent (per barrel)	26.98	-5.2%	Soybean (per bushel)	8.625	2.3%
Heating Oil (per gallon)	1.0063	-3.4%	Wheat (per bushel)	5.3925	0.8%
Gasoline (per gallon)	0.6054	-11.6%	Crude Palm Oil (MYR/MT)	2,338.0	3.0%
Natural Gas (per MMBtu)	1.6040	-3.0%	Rubber (JPY/KG)	145.4	0.0%
Base Metals	Futures	% chg	Precious Metals	Futures	% chg
Copper (per mt)	4,810	-0.3%	Gold (per oz)	1,498.7	1.9%
Nickel (per mt)	11,225	-0.2%	Silver (per oz)	12.617	4.1%

Source: Bloomberg, Reuters

(Note that rates are for reference only)

Economic Calendar

Date Time		Event		Survey	Actual	Prior	Revised
03/23/2020 03:25	TH	Car Sales	Feb	--	--	71688	--
03/23/2020 13:00	SI	CPI YoY	Feb	0.50%	--	0.80%	--
03/23/2020 13:00	SI	CPI NSA MoM	Feb	0.20%	--	-0.20%	--
03/23/2020 13:00	SI	CPI Core YoY	Feb	0.10%	--	0.30%	--
03/23/2020 14:30	TH	Customs Exports YoY	Feb	-10.90%	--	3.35%	--
03/23/2020 14:30	TH	Customs Imports YoY	Feb	-5.70%	--	-7.86%	--
03/23/2020 14:30	TH	Customs Trade Balance	Feb	\$2800m	--	-\$1556m	--
03/23/2020 15:00	JN	Convenience Store Sales YoY	Feb	--	--	0.40%	--
03/23/2020 16:00	TA	Industrial Production YoY	Feb	3.70%	--	-1.51%	--
03/23/2020 16:00	TA	Unemployment Rate	Feb	3.77%	--	3.71%	--
03/23/2020 16:30	HK	CPI Composite YoY	Feb	1.60%	--	1.40%	--
03/23/2020 20:00	CA	Bloomberg Nanos Confidence	Mar-20	--	--	54.3	--
03/23/2020 20:30	US	Chicago Fed Nat Activity Index	Feb	-0.29	--	-0.25	--
03/23/2020 20:30	CA	Wholesale Trade Sales MoM	Jan	--	--	0.90%	--
03/23/2020 23:00	EC	Consumer Confidence	Mar A	-13	--	-6.6	--

Source: Bloomberg

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